

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES**

**AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL**

**AREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE CAYEY**  
**AUDITORIA 2002-2003**

**30 DE JUNIO DE 2003**

COMISIONADO  
DE SERVICIOS POSTALES

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PERIODO  
UNIDAD DE CORREO

*Cantillo 4-6020*

**COMMONWEALTH OF PUERTO RICO**

**MUNICIPALITY OF CAYEY**

**SINGLE AUDIT REPORT**

**YEAR ENDED JUNE 30, 2003**

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF CAYEY

YEAR ENDED JUNE 30, 2003

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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF CAYEY

YEAR ENDED JUNE 30, 2003

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**López-Vega, CPA, PSC**

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

## **INDEPENDENT AUDITORS' REPORT**

**To the Honorable Mayor and  
the Municipal Legislature  
Municipality of Cayey  
Cayey, Puerto Rico**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Cayey, Puerto Rico**, as of and for the year ended June 30, 2003, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of the Office of Management and Budget Circular A-133, "*Audits of States, Local Governments, and Non-Profit Organizations*". Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Cayey, Puerto Rico**, as of June 30, 2003, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Municipality has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for States and Local Governments, and has adopted paragraphs six to eleven of GASB Statement No. 38, Certain Financial Statements Note Disclosures, as of June 30, 2003.

**INDEPENDENT AUDITORS' REPORT (Continued)**

The Management's Discussion and Analysis on pages 3 through 10 and the Budgetary Comparison Schedule-General Fund on page 37 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2003 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the **Municipality of Cayey**, taken as whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the respective financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
December 20, 2003

Stamp No.1942287 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**MANAGEMENT AND DISCUSSION ANALYSIS**

**YEAR ENDED JUNE 30, 2003**

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**Management's Discussion and Analysis**

Management of the Municipality of Cayey (the "Municipality") implemented Statement No. 34 ("Statement") of the Governmental Accounting Standards Board ("GASB"), Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments for the fiscal year ended on June 30, 2003. This Management's Discussion and Analysis (MD&A) is prepared as a result of the requirements of such Statement, and it has been designed accordingly with the following goals:

- a) Assist the reader in focusing on significant financial issues,
- b) Provide an overview of the Municipality's financial activity,
- c) Identify changes in the Municipality's financial position (its ability to address the next and subsequent year challenges),
- d) Identify any material deviations from the financial plan (the approved budget,) and;
- e) Identify individual fund issues or concerns.

Since the MD&A is designed to focus on the current year activities, resulting changes and currently known facts, please read it in conjunction with the Municipality's financial statements.

**FINANCIAL HIGHLIGHTS**

- The Municipality net assets decreased by \$ 5,095,818.
- In the fund financial statements, the governmental activities revenue increased \$ 1,021,595 (or 3%) while governmental activities expenditures increased \$ 4,945,547 (or 15%).
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, an increase of \$ 348,452.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$ 1,014,554.
- The Municipality issued bonds amounting to \$ 5,475,000 to finance the purchase of:

Equipment	\$ 2,305,000
Building, infrastructure and other	<u>3,170,000</u>
Total	<u>\$ 5,475,000</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

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**Using This Annual Report**

This annual report consists of a series of new financial statements with a change in the focus from previous financial statements. The new focus is on both the Municipality as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability.

**Government-Wide Financial Statements**

The Government-Wide Financial Statements are designed to provide users of the financial statements with a broad overview of the Municipality's finances in a manner similar to private-sector companies.

The Statement of Net Asset presents information on all of the Municipality's assets and liabilities, with the difference between both reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

The Statement of Activities presents information showing how the Municipality's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the Statement of Activities that will only result in cash flows in future fiscal periods. The Statement of Activities is focused on both the gross and net cost of various activities, which are provided by the government's general tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

**Fund Financial Statements**

The Fund Financial Statements provide detailed information about the Municipality's most significant funds, not the Municipality as a whole. The Municipality has only one kind of fund which is the governmental fund.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government Wide Financial Statements. However, unlike the Government Wide Financial Statements, Government Fund Financial Statements, focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the Municipality's near term financial requirements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**MANAGEMENT AND DISCUSSION ANALYSIS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

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**Fund Financial Statements (Continued)**

Because the focus of governmental funds is narrower than that of the government wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, users of the basic financial statements may better understand the long-term impact of the Municipality's near term financial decisions. Both, the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

**Infrastructure Assets**

Historically, a government's largest group of assets (infrastructure-roads, bridges, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in government financial statements. GASB 34 requires that these assets be valued and reported within the Governmental column of the Government-Wide Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the modified approach) which periodically (at least every third year), by category, measures and demonstrated its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

The Municipality commenced the reporting of infrastructure assets during the current year. Also, the Municipality elected to depreciate infrastructure assets instead of using the modified approach.

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE**

**Net Assets**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Municipality's combined net assets (excess of assets over liabilities) totaled \$ 15,348,823 at the end of 2003, compared to \$ 20,444,641 at the end of the previous year.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

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**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE**

**Net Assets (Continued)**

**Condensed Statement of Net Assets  
June 30, 2003**

Current assets	\$ 15,750,672
Capital assets	40,633,504
Other assets	<u>11,648,693</u>
 Total assets	 <u>68,032,869</u>
 Current liabilities	 10,601,497
Noncurrent liabilities	<u>42,082,549</u>
 Total liabilities	 <u>52,684,046</u>
 Invested in capital assets, net of related debt	 12,085,504
Restricted	15,144,344
Unrestricted	<u>(11,881,025)</u>
 Total net assets	 <u>\$15,348,823</u>

**Changes in Net Assets**

The Municipality's net assets decreased by \$ 5,095,818. Approximately 51 percent of the Municipality's total revenue came from taxes, while 25 percent resulted from grants and contributions, including federal aid. Charges for Services provided 6 percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for public works, general government, health and welfare services, public safety and economic development. In future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

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Changes in Net Assets (Continued)

**Condensed Statement of Activities**  
**June 30, 2003 -**

Program revenues:	
Charges for services	\$ 2,019,292
Operating grants and contributions	4,645,169
Capital grants and contributions	2,822,912
General revenues:	
Property taxes	10,777,185
Municipal license tax	4,463,014
Grants and contributions not restricted to specific programs	4,224,590
Interest and investment earnings	365,764
Miscellaneous	<u>227,609</u>
Total revenues	<u>29,545,535</u>
Expense:	
General government	12,167,758
Public safety	850,239
Public works	14,640,706
Culture and recreation	773,353
Health and welfare	4,977,747
Economic development	432,290
Education	146,577
Interest on long-term debt	<u>652,683</u>
Total expenses	<u>34,641,353</u>
Change in net assets	(5,095,818)
Net assets, beginning of year	<u>20,444,641</u>
Net assets, end of year	<u>\$15,348,823</u>

**FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS**

As noted earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**MANAGEMENT AND DISCUSSION ANALYSIS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

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**Governmental Funds**

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$16,797,868, a increase of \$1,713,525 in comparison with the prior year. There are reservations of fund balance amounting to \$15,955,954. This is the fund balance that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior fiscal year (\$811,610), 2) to pay debt service (\$ 4,292,472), 3) to pay for capital projects (\$5,687,302) and 4) for other purposes (\$ 5,164,570).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2003, the general fund has a fund balance of \$ 1,653,524.

The Financial Sector had a better financial performance in comparison to previous years accordingly paid additional Municipal License Taxes to the Municipality.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Over the course of the year, the Municipality Council revised the Municipality's budget in order to include increases in revenues that were identified during the course of the fiscal year based on current developments that positively affected the Municipality's finances. Increases in budgeted expenditures were also made since the law mandates a balanced budget.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Municipality's investment in capital assets as of June 30, 2003, amounts to \$ 57,127,536, net of accumulated depreciation of \$ 16,494,032, leaving a net book value of \$ 40,633,504. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**MANAGEMENT AND DISCUSSION ANALYSIS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

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**CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)**

**Capital Assets**

The total increase in the Municipality's investment in capital assets for the current fiscal year was about 3% in terms of net book value. Depreciation charges for the year totaled \$ 1,034,654.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2003, the Municipality has \$4,533,225 of unexpended proceeds from bond issuances that are committed to future construction activities.

**Debt Administration**

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged. See "Limitations on Ability of Municipalities to Issue General Obligation Debt-The Municipal Bonds" for a general description of such limitations.

The applicable law also requires that in order for a municipality to be able to issue additional general obligation bonds and notes such Municipality must have sufficient "payment capacity". Act No. 64 provides that a municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption Fund and the annual amounts collected with respect to such municipality's Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

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**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Municipality relies primarily on property and municipal taxes as well as federal grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal grant revenues may vary if new grants are available but the revenue also is very predictable.

Those factors were considered when preparing the Municipality's budget for the 2003-2004 fiscal years.

**FINANCIAL CONTACT**

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer.

Commonwealth of Puerto Rico  
Municipality of Cayey  
Statement of Net Assets  
June 30, 2003

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 14,009,467
Cash with fiscal agent	11,648,693
Accounts receivable:	
Municipal license tax	33,666
Intergovernmental	471,051
Federal grants	566,793
Other	35,610
Notes receivable	634,085
Capital assets	
Land, improvements, and construction in progress	20,356,710
Other capital assets, net of depreciation	<u>20,276,794</u>
Total capital assets	<u>40,633,504</u>
 Total assets	 <u>68,032,869</u>
 <b>Liabilities</b>	
Accounts payable and accrued liabilities	3,734,414
Due to other governmental entities	357,829
Deferred revenues:	
Municipal license tax	3,836,679
Federal grant revenues	2,636,586
Other	35,989
Noncurrent liabilities:	
Due within one year	2,857,240
Due in more than one year	<u>39,225,309</u>
 Total liabilities	 <u>52,684,046</u>
 <b>Net Assets</b>	
Invested in capital assets, net of related debt	12,085,504
Restricted for:	
Capital projects	5,687,302
Debt service	4,292,472
Federal and state grant funds	5,164,570
Unrestricted (deficit)	<u>(11,881,025)</u>
 Total net assets	 <u>\$ 15,348,823</u>

The notes to the financial statements are an integral part of this statement.

Commonwealth of Puerto Rico  
Municipality of Cayey  
Statement of Activities  
For the Year Ended June 30, 2003

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
General government	\$ 12,167,758	\$ 64,690	\$ 1,721,180	\$ 1,621	\$ (10,380,267)
Public safety	850,239	3,515	255,767		(590,957)
Public works	14,640,706	124,423	1,378,339	2,615,550	(10,522,394)
Health and welfare	4,977,747	1,807,864	1,289,883	113,500	(1,766,500)
Culture and recreation	773,353	18,800			(754,553)
Community development	432,290			92,241	(340,049)
Interest on long-term debt	652,683				(652,683)
Education	146,577				(146,577)
<b>Total governmental activities</b>	<b>\$ 34,641,353</b>	<b>\$ 2,019,292</b>	<b>\$ 4,645,169</b>	<b>\$ 2,822,912</b>	<b>\$ (25,153,980)</b>
General revenues:					
					10,777,185
					4,463,014
					4,224,590
					365,764
					227,609
					<u>20,058,162</u>
					(5,095,818)
					<u>20,444,641</u>
					<u>\$ 15,348,823</u>

**Commonwealth of Puerto Rico**  
**Municipality of Cayey**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2003**

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 5,585,546	\$ 4,418,793	\$ 4,005,128	\$ -	\$ 14,009,467
Cash with fiscal agent		2,822,996	4,533,225	4,292,472	11,648,893
Accounts receivable:					
Municipal license tax	33,666				33,666
Intergovernmental	10,627	460,424			471,051
Federal grants		347,917	218,876		566,793
Other	35,610				35,610
Due from other funds	856,505	44,352	367,509		1,268,366
Notes receivable			634,085		634,085
<b>Total assets</b>	<b>\$ 6,521,954</b>	<b>\$ 8,094,482</b>	<b>\$ 9,758,823</b>	<b>\$ 4,292,472</b>	<b>\$ 28,667,731</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities	\$ 805,544	\$ 1,504,389	\$ 1,624,481	\$ -	\$ 3,734,414
Due to other governmental entities	357,829				357,829
Due to other funds	68,378	998,083	201,905		1,268,366
Deferred revenues:					
Municipal license tax	3,836,679				3,836,679
Federal grant revenues		391,451	2,245,135		2,636,586
Other		35,989			35,989
<b>Total liabilities</b>	<b>4,868,430</b>	<b>2,929,912</b>	<b>4,071,521</b>	<b>-</b>	<b>11,869,863</b>
<b>Fund balances:</b>					
<b>Reserved for:</b>					
Encumbrances	811,610				811,610
Capital projects			5,687,302		5,687,302
Other purposes		5,164,570			5,164,570
Debt service fund				4,292,472	4,292,472
<b>Unreserved:</b>					
Undesigned	841,914				841,914
<b>Total fund balances</b>	<b>1,653,524</b>	<b>5,164,570</b>	<b>5,687,302</b>	<b>4,292,472</b>	<b>16,797,868</b>
<b>Total liabilities and fund balances</b>	<b>\$ 6,521,954</b>	<b>\$ 8,094,482</b>	<b>\$ 9,758,823</b>	<b>\$ 4,292,472</b>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	40,633,504
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds	(42,082,549)
<b>Net assets of governmental activities</b>	<b>\$ 15,348,823</b>

The notes to the financial statements are an integral part of this statement.

**Commonwealth of Puerto Rico**  
**Municipality of Cayey**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2003**

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
<b>Revenues</b>					
Property taxes	\$ 7,725,048			\$ 3,052,137	\$ 10,777,185
Municipal license taxes	4,463,014				4,463,014
Licenses, permits and other local taxes	1,793,157				1,793,157
Charges for services	1,927,492				1,927,492
Intergovernmental	2,625,808	1,209,020	1,080,371		4,915,199
Fines and forfeitures	3,515				3,515
Interest	365,764				365,764
Federal grants		3,330,495	1,742,654		5,073,149
Miscellaneous	227,060				227,060
<b>Total revenues</b>	<b>\$ 19,130,858</b>	<b>\$ 4,539,515</b>	<b>\$ 2,823,025</b>	<b>\$ 3,052,137</b>	<b>\$ 29,545,535</b>
<b>Expenditures</b>					
<b>Current:</b>					
General government	9,522,900	1,696,605	274,897		11,494,402
Public safety	953,566	109,828			1,063,394
Public works	2,760,171	2,803,733	5,840,226		11,404,130
Health and welfare	3,189,382	1,434,439	113,232		4,737,053
Culture and recreation	685,094	748			685,842
Community development	432,290				432,290
Education	121,077				121,077
<b>Debt service:</b>					
Principal		675,000		2,004,000	2,679,000
Interest		422,406		230,277	652,683
<b>Total expenditures</b>	<b>17,664,480</b>	<b>7,142,759</b>	<b>6,228,355</b>	<b>2,234,277</b>	<b>33,269,871</b>
Excess (deficiency) of revenues over (under) expenditures	1,466,378	(2,603,244)	(3,405,330)	817,860	(3,724,336)
<b>Other financing sources (uses)</b>					
Transfers in		3,217,926			3,217,926
Transfers out	(1,117,926)			(2,100,000)	(3,217,926)
Long-term debt issued		2,355,000	3,120,000		5,475,000
Bond issuance costs		(19,205)	(17,934)		(37,139)
<b>Total other financing sources (uses)</b>	<b>(1,117,926)</b>	<b>5,553,721</b>	<b>3,102,066</b>	<b>(2,100,000)</b>	<b>5,437,861</b>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	348,452	2,950,477	(303,264)	(1,282,140)	1,713,525
Fund balance, beginning as restated	1,305,072	2,214,093	5,990,566	5,574,612	15,084,343
Fund balance, ending	<b>\$ 1,653,524</b>	<b>\$ 5,164,570</b>	<b>\$ 5,687,302</b>	<b>\$ 4,292,472</b>	<b>\$ 16,797,868</b>

The notes to the financial statements are an integral part of this statement.

**Commonwealth of Puerto Rico**  
**Municipality of Cayey**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances of**  
**Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2003**

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<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$</b>	<b>1,713,525</b>
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Governmental Funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.</p>		2,252,089
<p>Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds</p>		(1,034,654)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in Governmental Funds.</p>		(699,706)
<p>Change in landfill accrual</p>		(4,568,211)
<p>The issuance of long-term debt provides current financial resources to Governmental Funds, while the repayment of principal of long-term debt consumes current financial resources. This is the amount by which debt proceeds exceed debt service principal payments.</p>		(2,758,861)
		<u>(2,758,861)</u>
<b>Change in Net Assets of Governmental Activities</b>	<b>\$</b>	<b><u>(5,095,818)</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2003**

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The **Municipality of Cayey** (the Municipality) was founded on the year 1773. The Municipality's governmental system consists of an executive and legislature body. It is governed by a Mayor and a sixteen-member Municipal Legislature who are elected for four-year terms.

The Municipality provides public safety, public works, culture and recreation, health and welfare, urban development, education, economic development, and other miscellaneous services.

The accounting policies and financial reporting practices of the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. With this financial report, the Municipality has changed its financial reporting to comply with the provisions of GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. As part of the implementation of GASB Statement No. 34, the Municipality adopted a prospective reporting of its general infrastructure assets. The Municipality has applied the retroactively presentation of the historical costs of infrastructure assets during the fiscal year ended June 30, 2003.

In conjunction with the implementation of GASB Statement No. 34, the Municipality has also implemented paragraphs six to eleven of GASB Statement No. 38, Certain Financial Statements Note Disclosures, which rescinds some and modifies other financial statement disclosure requirements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**A. Component Units**

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, The Financial Reporting Entity, of the GASB. The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary governmental appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. GAAP details two methods of presentation: blending the financial data of the component unit's balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions.

**B. Government-wide and fund financial statements**

Financial information of the Municipality is presented in this report as follow:

1. Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
2. The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all the activities of the Municipality and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-typed activities, if any, which rely to a significant extent on fees and charges for support. Interfund activity has been removed from these statements to minimize the duplicating effect on assets and liabilities within the governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**B. Government-wide and fund financial statements**

a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

3. Fund financial statements focus on information about the Municipality's major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The Municipality reports the following major governmental funds:

*General Fund*- is the accounting entity in which all governmental activity, except that which is required to be accounted for in another fund, is accounted for. Its revenues consist mainly of taxes, licenses and permits, intergovernmental revenue, charges for services and other.

*Special Revenue Fund* - is the accounting entity in which revenues derived from federal and state grants, is accounted for. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

*Capital Project Fund -Local, State and Federal Grants* - is the accounting entity in which revenues derived from local funds, state and federal grants or other restricted revenue sources related to capital projects, is accounted for. The uses and limitations of each capital project fund are specified by Municipality ordinances or federal and state statutes.

*Debt Service Funds*- Debt Service Funds are used to account for the accumulation of resources for and the payment of, general long-term debt principal, interest, and related costs.

4. The notes to the financial statements provide information that is essential to a user's understanding of the basic financial statements.
5. Required supplementary information such as the budgetary comparison schedule-general fund and other types of data required by GASB.
6. Notes to the budgetary comparison schedule-general fund.

**C. Financial reporting presentation**

The accounts of the Municipality are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Fund types are as follows:

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**C. Financial reporting presentation**

**General Fund-** The General Fund is the general operating fund of the Municipality. It is used to account for all governmental activity, except those required to be accounted for in another fund.

**Special Revenue Funds-** Special Revenue Funds are used to account for revenues derived from grants or other restricted revenue sources. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

**Debt Service Funds-** Debt Service Funds are used to account for the accumulation of resources for and the payment of, general long-term debt principal, interest, and related costs.

**Capital Projects Funds-** Capital Project Funds are used to account for financial resources used for the acquisition or construction of major capital facilities.

**D. Measurement focus, basis of accounting and financial presentation**

Except for budgetary purposes, the basis of accounting used by the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Municipality has elected not to apply all Statements and Interpretations issued by the Financial Accounting Standard Board after November 30, 1989, in accordance with GASB Statement No.20.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**D. Measurement focus, basis of accounting and financial presentation**

be available if they are collected within the current period or soon enough thereafter. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures when payment is due. General capital asset acquisitions are reported as expenditure in governmental funds. Proceeds from issuance of general long-term debt reported as other financing sources.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

Private-sector standards of accounting and financial reporting issue prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Municipality has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants, and contributions, and 3) capital grants and contributions, including special assessments, if any. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources, as they are needed.

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**E. Assets, liabilities and net assets**

- 1. Cash, cash equivalents, and cash with fiscal agent-** The Municipality's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Cash with fiscal agent in the debt services fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

- 2. Receivables and payables-** Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivable in the special revenue fund represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs and the amount in the debt service fund represent the distribution of property tax collected by the Municipal Revenue Collection Center (CRIM), which is restricted for the debt service.

- 3. Inventories-** Inventories in the general fund is recorded as expenditure and, consequently, the inventory is not recorded in the statement of net assets.
- 4. Capital assets-** Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the governmental-wide financial statements. The Municipality defines capital asset as assets with an initial, individual cost of more than \$25 and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

E. Assets, liabilities and net assets

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Municipality, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives:

Description	Useful Life	Capitalization threshold
Buildings	50	\$ 1
Infrastructure (roads)	20	\$ 1
Machinery	10	\$ 25
Computer's hardware	5	\$ 25
Vehicles	5	\$ 1
Furniture and fixtures	10	\$ 25
Stadiums	20 to 45	\$ 1
Recreational areas	10 to 15	\$ 1

5. **Long-term obligations-** The liabilities reported in the government-wide financial statements include the general and special obligation bonds, bank and long-term notes, other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities and landfill closure and post closure care costs.

In the fund financial statements, governmental fund types recognize bond issuances cost, during the current period. The face amount of debt issued is reported as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the general fund.

6. **Compensated absences-** Employees accumulate vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. All vacation pay it is accrued when incurred in the government-wide financial statements.

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Municipality.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**E. Assets, liabilities and net assets**

7. **Claims and judgments-** The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund.
8. **Reservation of fund balance-** Reservations of fund balance in the fund financial statements, represent portions of fund balances that are legally segregated for specific future use or are not appropriated for expenditure. The municipality has the following reservations of fund balance:
  - a. *Capital Projects-* Represent the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.
  - b. *Encumbrances-* Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.
  - c. *Debt Service Fund-* Represents net assets available to finance future debt service payments.
  - d. *Other Purposes-* Represents net assets available for specific use and/or legally segregated for other specific future use.
9. **Interfund and intra-entity transactions-** The Municipality has the following types of transactions among funds:
  - a. *Operating Transfers-* Legally required transfers that are reported when incurred as "Operating transfer-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.
  - b. *Intra-Entity Transactions-* Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.
10. **Risk financing-** The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the Municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

---

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**E. Assets, liabilities and net assets**

gross property tax collections by the CRIM for the year ended June 30, 2003 amounted to approximately \$ 581,000. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$347,000 for workers compensation insurance covering all municipal employees.

- 11. Reconciliation of Government-Wide and Fund Financial Statements-** Explanation of certain differences between the Governmental Fund Balance-Total Governmental Funds and Net Assets-Governmental Activities as reported in the Government-Wide Statement of Net Assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The detail is as follows:

Accrued compensated absences	\$ 2,155,921
Due to other governmental entities	6,233,432
Landfill closure and post closure care costs	4,963,914
Other long-term debt	<u>181,282</u>
Net adjustment to reduce fund balance total governmental funds to arrive at net assets-governmental activities	<u>\$13,534,549</u>

**2. DEPOSITS**

Under Puerto Rico statutes public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The Municipality's bank balances in commercial banks of approximately \$ 5,500,000 in the general fund were fully collateralized at June 30, 2003. In the major governmental funds there were deposits with commercial banks of approximately \$ 4,400,000 and \$ 4,000,000 respectively, that were fully collateralized.

The deposits at GDB of approximately \$ 4,500,000 that are restricted principally for capital projects, \$ 2,800,000 that are restricted for various purposes and the \$ 4,292,472 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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**3. RECEIVABLES**

- a. **Municipal License Tax-** The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$ 1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2003, the tax rates were as follows:

- Financial business- 1.50% of gross revenues
- Other organizations- 0.50% of gross revenues

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2003, net of allowance for uncollectibles.

Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year are recorded as deferred revenues.

- b. **Intergovernmental Receivables-** Intergovernmental receivables in the general fund consist of the amounts due from CRIM.

Amount presented in the Special Revenue Fund principally consist of the amounts due from the Commonwealth of Puerto Rico Department of Labor.

- c. **Federal Grants-** Federal Grants receivable mainly consist in expenditures incurred not yet reimbursed by the CDBG Program.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

**4. NOTES RECEIVABLES**

At June 30, 2003, the notes receivable are composed of the following:

a. Note receivable from Cooperativa Agro-Comercial de P.R. " La Marquetin" in the original amount of \$ 740,000, to be collected as follows:	\$ 431,741
1. Monthly interest payments of \$ 1,850, at 3 % annual interest rate, from the first through the end of the fifth year.	
2. Monthly installments of \$ 5,110 including interest at 3 %, starting on the sixth year through year 2011.	
b. Note receivable from Hospital Menonita in the original amount of \$350,000 to be collected in monthly installments of \$3,037, including interest at 8.5% through year 2012.	<u>202,344</u>
Total amount of notes receivable as of June 30, 2003	<u>\$ 634,085</u>

**5. INTERFUND TRANSACTIONS**

Interfund receivables and payables at June 30, 2003 are summarized as follows:

**a. Due from/to other fund:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Special Revenue Fund	\$ 654,600
	Capital Projects Fund	201,905
Special Revenue	General Fund	2,499
	Capital Projects Fund	41,853
Capital Projects	Other Major Governmental Funds	<u>367,509</u>
Total		<u>\$ 1,268,366</u>

**b. Transfer in/out to other fund**

Following is a summary of interfund transfers for the year:

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund	Transfer of funds for Capital Outlays	\$ 1,117,926
Debt Service Fund	Special Revenue Fund	Transfer of funds for Capital Outlays	<u>2,100,000</u>
Total			<u>\$ 3,217,926</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

**6. CAPITAL ASSETS**

Capital assets; those with an estimated useful live of one year or more from the time of acquisition by the Municipality and a cost of \$25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2003, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

<b>Governmental Activities:</b>	<b>Balance July 1, 2002</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2003</b>
<b>Capital asset, not being depreciated:</b>				
Land	\$ 17,991,546	\$ —	\$ —	\$17,991,546
Construction in progress	1,976,635	388,529		2,365,164
<b>Total capital assets not being depreciated</b>	<b>19,968,181</b>	<b>388,529</b>		<b>\$20,356,710</b>
<b>Capital assets, being depreciated:</b>				
Buildings and building improvements	23,207,334	536,959	—	23,744,293
Infrastructure	5,019,560	307,164	—	5,326,724
Equipment	1,048,235	354,180	—	1,402,415
Vehicles	5,632,137	665,257	—	6,297,394
<b>Total capital assets being depreciated</b>	<b>\$ 34,907,266</b>	<b>\$ 1,863,560</b>	<b>\$ —</b>	<b>36,770,826</b>
<b>Less accumulated depreciation for:</b>				
Buildings and building improvements	\$ 8,492,158	\$ 381,780		\$ 8,873,938
Equipment	446,030	139,898		585,928
Infrastructure	4,013,989			4,013,989
Vehicles	2,507,201	512,976		3,020,177
<b>Total accumulated depreciation</b>	<b>15,459,378</b>	<b>1,034,654</b>		<b>16,494,032</b>
<b>Total capital assets being depreciated, net</b>	<b>19,447,888</b>	<b>828,906</b>		<b>20,276,794</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 39,416,069</b>	<b>\$ 1,217,435</b>	<b>\$ —</b>	<b>\$40,633,504</b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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6. CAPITAL ASSETS (CONTINUED):

Depreciation expense was charged to functions/programs of the Municipality as follows:

Governmental activities:

General government	\$ 154,101
Public safety	57,963
Public works	353,246
Culture and recreation	183,355
Health and welfare	260,489
Education	<u>25,500</u>
Total depreciation expense-governmental activities	<u>\$ 1,034,654</u>

7. PROPERTY TAXES

The personal property tax is self assessed by the taxpayer on a return which is to be filed by May 15 of each year with the CRIM, a governmental entity created by the government of Puerto Rico as part of the Municipal Governmental Autonomous Laws of August 1991. Real property tax is assessed by the CRIM on each piece of real estate and on each building.

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1. The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collect for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. The CRIM issued the final liquidation noting that the collections exceeded advances by \$10,627. Such amount was included as intergovernmental receivables in the General Fund.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

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**7. PROPERTY TAXES (CONTINUED):**

Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$ 3,500 for which no payment is made. As part of the Municipal Autonomous Law of 1991, the exempt amount to be paid by the Puerto Rico Treasury department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$50,000 of the assessed value to retailers having annual net sales of less than \$150,000.

The annual tax rate is 8.83% for real property and 6.83% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 5.8% and 3.8%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 2.00% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund. The Commonwealth also contributes an annual tax rate of 0.2% of the property tax collected and such amount is accounted for similar to item (a) above.

**8. DUE TO OTHER GOVERNMENTAL ENTITIES:**

The amounts due to other governmental entities in the General Fund include the following:

General Services Administration	\$ 1,500
Puerto Rico Telephone Company	30,065
Puerto Rico Aqueduct and Sewer Authority	8,868
Puerto Rico Electric Power Authority	<u>317,396</u>
Total	<u>\$ 357,829</u>

The Municipality reached agreements with other governmental entities for the payment of debts on a long-term basis. These liabilities are presented in the Statement of Net Assets as non-current liabilities.

**9. DEFERRED REVENUES**

- a. **Municipal License Tax-** The deferred revenues of approximately \$3,836,679 in the general fund relates to municipal license tax collected in fiscal year 2002-03 that will be earned in fiscal year 2003-04.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

**9. DEFERRED REVENUES (CONTINUED):**

- b. **Federal Government-** The deferred revenues presented in Special Revenue and Capital Projects Funds represent the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

**Program Description**

HUD- Section 108	\$ 2,068,722
Section 8 Housing Choice Vouchers	280,317
Local Law Enforcement Block Grants	35,989
Community Development Block Grants	43,629
Other	<u>207,929</u>
 Total	 <u>\$ 2,636,586</u>

**10. LONG-TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2003, was as follows:

	Beginning Balance	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
Bonds Payable	\$18,777,000	\$5,475,000	\$(2,004,000)	\$22,248,000	\$1,690,000
Notes Payable	6,975,000	-	(675,000)	6,300,000	675,000
Advances from CRIM	4,371,083	841,639	(332,010)	4,880,712	322,240
Compensated Absences	2,297,854		(141,933)	2,155,921	170,000
Due to other Governmental entity	1,521,567		(168,847)	1,352,720	
Claims and Judgments	181,282			181,282	
Landfill obligation	395,703	4,568,211		4,963,914	
Total	<u>\$34,519,489</u>	<u>\$10,884,850</u>	<u>\$(3,321,790)</u>	<u>\$42,082,549</u>	<u>\$2,857,240</u>

- a. **Legal debt margin-** The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment if property located within the Municipality plus balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues if the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds payable, is paid with unrestricted funds.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

**10. LONG-TERM LIABILITIES (CONTINUED):**

**b. Bonds payable-** The Municipality issues general and special obligation bonds to provide funds for the acquisition and construction of major capital facilities. During the current year, the Municipality issued bonds for approximately \$5,475,000. Bonds payable outstanding at June 30, 2003 are as follows:

Type of bonds	Maturity date	Original amount	Range of Interest rates	Balance at June 30, 2003
1989 Series	7-1-04	460,000	3.3% to 8.6%	\$ 105,000
1992 Series	7-1-07	2,440,000	4.2% to 6.4%	1,200,000
1995 Series	1-1-18	663,000	5.0%	511,000
1995 Series	1-1-18	465,000	5.0%	352,000
1997 Series	7-1-07	280,000	6.0% to 7.5%	170,000
1998 Series	7-1-22	1,015,000	4.9% to 6.7%	935,000
1998 Series	7-1-13	1,990,000	4.9% to 6.7%	1,595,000
1998 Series	7-1-13	355,000	4.9% to 6.7%	295,000
1998 Series	7-1-13	3,705,000	4.9% to 6.7%	3,075,000
1998 Series	7-1-03	210,000	4.9% to 6.7%	50,000
1999 Series	7-1-05	355,000	0.0% to 7.8%	175,000
1999 Series	7-1-12	725,000	6.0% to 7.1%	585,000
1999 Series	7-1-23	685,000	6.0% to 7.0%	640,000
2000 Series	7-1-04	55,000	7.3% to 7.5%	25,000
2000 Series	7-1-04	250,000	0.0% to 7.8%	110,000
2000 Series	7-1-06	355,000	7.3% to 7.5%	330,000
2000 Series	7-1-14	1,765,000	7.3% to 7.5%	1,545,000
2001 Series	7-1-05	180,000	5.0% to 8.0%	115,000
2001 Series	7-1-25	270,000	5.0% to 8.0%	260,000
2001 Series	7-1-25	1,010,000	5.0% to 8.0%	980,000
2001 Series	7-1-06	165,000	5.0% to 7.5%	140,000
2001 Series	7-1-16	255,000	5.0% to 8.0%	245,000
2001 Series	7-1-08	325,000	5.0% to 7.5%	290,000
2001 Series	7-1-06	475,000	5.0% to 7.5%	395,000
2001 Series	7-1-16	1,120,000	5.0% to 7.5%	1,075,000
2001 Series	7-1-18	835,000	5.0% to 7.5%	810,000
2002 Series	7-1-06	260,000	5.0% to 8.0%	215,000
2002 Series	7-1-16	125,000	5.0% to 7.5%	120,000
2002 Series	7-1-08	205,000	5.0% to 7.5%	180,000
2002 Series	7-1-26	255,000	5.0% to 7.25%	250,000
2002 Series	7-1-07	55,000	5.0% to 6.5%	55,000
2002 Series	7-1-08	205,000	5.0% to 6.5%	205,000
2002 Series	7-1-17	235,000	5.0% to 6.5%	235,000
2002 Series	7-1-07	270,000	5.0% to 6.5%	270,000
2002 Series	7-1-17	325,000	5.0% to 6.5%	325,000
2002 Series	7-1-09	1,030,000	5.0% to 6.5%	1,030,000
2003 Series	7-1-09	745,000	5.0% to 6.5%	745,000
2003 Series	7-1-17	85,000	2.7% to 5.0%	85,000
2003 Series	7-1-27	1,110,000	5.0% to 6.5%	1,110,000
2003 Series	7-1-27	1,415,000	5.0% to 6.5%	<u>1,415,000</u>
<b>Total general obligation bonds</b>				<b><u>\$ 22,248,000</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

**10. LONG-TERM LIABILITIES (CONTINUED):**

These bonds are payable from the ad valorem property tax of 2.00% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

Annual debt service requirements to maturity for bonds payable are as follows:

Year Ending June 30,	Principal	Interest
2004	\$ 1,691,000	\$ 1,037,923
2005	1,762,000	1,066,195
2006	1,739,000	982,476
2007	1,771,000	900,376
2008	1,689,000	826,464
2009-2013	6,457,000	2,943,604
2014-2018	3,894,000	1,427,268
2019-2023	1,870,000	708,551
2024-2028	1,375,000	400,510
Total	<u>\$ 22,248,000</u>	<u>\$ 10,293,367</u>

- c. **Advances from CRIM-** This amount represents the balance owed to CRIM at June 30, 2003 will be repaid through a financing obtained by the CRIM with GDB.
- d. **Compensated absences-** The government-wide statement of net assets includes approximately \$ 2,100,000 of accrued vacation and sick leave benefits, representing the Municipality's commitment to fund such costs from future operations.
- e. **Landfill obligation-** State and federal laws and regulations require the Municipality to place a final cover on its landfill site, when it stopped accepting waste, and perform certain maintenance and monitoring functions at the site for 30 years after closure. In accordance with Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs", the Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. Based on this study, the Municipality has recognized \$ 4,963,914 as the Municipality's estimated current cost for landfill closure and post-closure costs as of June 30, 2003. The annual estimate of post closure costs has been assessed approximately to be \$ 47,000 for a period of approximately 30 years. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. The balance of closure and post-closure costs are reported in the government-wide statement of net assets.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

**10. LONG-TERM LIABILITIES (CONTINUED):**

- f. **Notes payable-** The notes payable transactions for the year ended June 30, 2003, were as follows:

Balance at July 1, 2002	\$ 6,975,000
Payment during the current year	<u>( 675,000)</u>
Balance at June 30, 2003	<u>\$ 6,300,000</u>

Notes payable at June 30, 2003 are as follows:

Description	Maturity Date	Original Amount	Range of Interest rates	Balance June 30, 2003
Section 108 Loan	8-1-06	\$ 3,330,000	5.9% to 7.1%	\$ 1,530,000
Section 108 Loan	8-1-14	1,670,000	6.2% to 6.5%	1,340,000
Section 108 Loan	8-1-15	4,225,000	6.2% to 6.5%	<u>3,430,000</u>
				<u>\$ 6,300,000</u>

The future annual requirements for the amortization of notes payable outstanding as of June 30, 2003, are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2004	\$ 675,000
2005	675,000
2006	1,025,000
2007	655,000
2008	375,000
2009-2013	1,875,000
2014-2018	<u>1,020,000</u>
<b>Total</b>	<u><b>\$ 6,300,000</b></u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

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**11. PENSION PLAN (CONTINUED)**

The Employee's Retirement System of the Commonwealth and its Instrumentalities (the Retirement System) is a cost-sharing multiple defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Municipality under 55 years of age at the date of employment become members of the Retirement System as a condition to their employment.

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation.

Members who have attained 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitled to an annual benefit payable monthly for life.

The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. Total Municipality contributions to the above-mentioned plans during the year ended June 30, 2003 recorded as pension expenditures were approximately \$ 404,000. This amount represents 100% of the required contribution for the fiscal year ended June 30, 2003.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employee's participation in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January 1, 2000, will only be allowed to become members of

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

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**11. PENSION PLAN (CONTINUED)**

System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% to the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2003, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42003, San Juan, PR 00940

**12. COMMITMENTS AND CONTINGENCIES**

**A. Federal grants:**

The Municipality participates in a number of Federal Financial Assistance Programs. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1996, through June 30, 2003, these programs are still subject to financial and compliance audits by the granting agencies and the resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Municipality expects such amounts, if any, not to be material.

**B. Claims and lawsuits:**

The Municipality is a defendant in several legal proceedings that arise in the ordinary course of the Municipality's activities. With respect to pending and threatened litigation, the Municipality has reported liabilities of \$ 181,282 as non-current liabilities in the Statement of Net Assets of the Government-Wide Financial Statements for anticipated unfavorable judgments. This amount was included in the

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2003

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**12. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

financial statements and represents the amount estimated as a probable liability or a liability with fixed or expected due date, which will require future available financial resources for its payment.

It is management's opinion, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial condition of the Municipality.

**13. BEGINNING FUND BALANCES RESTATEMENT:**

The beginning fund balances (deficit) of the General, Special Revenue and Capital Projects Funds have been restated by \$ 37,616 to properly present the previously reported fund balance as of June 30, 2002.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**BUDGETARY COMPARISON SCHEDULE- GENERAL FUND**

**YEAR ENDED JUNE 30, 2003**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis) (See Note 1)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Property taxes	\$6,124,459	\$ 7,027,405	\$ 7,725,048	\$ 697,643
Municipal license tax	4,600,000	4,750,000	4,463,014	(286,986)
Licenses, permits and other local taxes	975,300	995,300	1,793,157	797,857
Intergovernmental	2,542,863	2,748,537	2,625,808	(122,729)
Charges for services	3,533,600	3,179,600	1,927,492	(1,252,108)
Fines and forfeitures	30,000	30,000	3,515	(26,485)
Interest	500,000	515,000	365,764	(149,236)
Miscellaneous	<u>606,000</u>	<u>775,000</u>	<u>227,060</u>	<u>(547,940)</u>
<b>Total revenues</b>	<b><u>18,912,222</u></b>	<b><u>20,020,842</u></b>	<b><u>19,130,858</u></b>	<b><u>(889,984)</u></b>
<b>EXPENDITURES AND OTHER FINANCING USES:</b>				
<b>Current:</b>				
General government	10,818,271	10,649,055	8,880,523	1,768,532
Public safety	1,372,880	1,039,248	958,114	81,134
Public works	3,122,317	3,366,322	2,807,567	558,755
Culture and recreation	786,325	855,815	3,162,307	( 2,306,492)
Health and welfare	2,095,938	3,428,172	664,875	2,763,297
Community development	596,045	524,857	403,915	120,942
Education	120,446	157,373	121,077	36,296
Transfer to other fund	<u>                    </u>	<u>                    </u>	<u>1,117,926</u>	<u>( 1,117,926)</u>
<b>Total expenditures and other financing uses</b>	<b><u>18,912,222</u></b>	<b><u>20,020,842</u></b>	<b><u>18,116,304</u></b>	<b><u>1,904,538</u></b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>			<b><u>\$ 1,014,554</u></b>	<b><u>\$1,014,554</u></b>
<b>Explanation of Differences:</b>				
<b>Sources/inflows of resources:</b>				
Actual amounts (budgetary basis)"available for appropriation" from the budgetary comparison schedule				\$ 19,130,858
Differences-budget to GAAP				<u>                    </u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances				<b><u>\$ 19,130,858</u></b>
<b>Uses/outflows of resources:</b>				
Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule				\$ 18,116,304
Differences-budget to GAAP:				
Transfer to other funds are outflows of budgetary resources but are not expenditures for financial reporting purpose				(1,117,926)
Prior year encumbrances recorded as current year expenditures for GAAP basis				1,477,712
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(811,610)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances				<b><u>\$ 17,664,480</u></b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY

BUDGETARY COMPARISON SCHEDULE GENERAL FUND

YEAR ENDED JUNE 30, 2003

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**1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**a. Budgetary Control**

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Legislature. Transfers of appropriations within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Legislature.

The Municipality prepares its annual budget including the operations of the general fund.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2003 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2003.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2003**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
<b>U.S. DEPARTMENT OF AGRICULTURE:</b>			
Direct Programs:			
Rural Housing Preservation Grant	10.433		\$ 60,789
Water and Waste Disposal Systems for Rural Communities	10.760		550,481
Pass-through the Commonwealth of Puerto Rico - Department of Education: Child and Adult Care Food Program	10.558	Not Available	<u>15,033</u>
<b>Total U.S. Department of Agriculture</b>			<u><b>626,303</b></u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>			
Direct Programs:			
Community Development Block Grants - Entitlement Grants	14.218		1,604,823
Urban Development Action Grant	14.221		124,012
Community Development Block Grants - Section 108 Loan Guarantee	14.248		673,648
Section 8 Housing Choice Voucher	14.871		<u>827,657</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u><b>3,230,140</b></u>
<b>U.S. DEPARTMENT OF JUSTICE:</b>			
Direct Program:			
Public Safety Partnership and Community Policing Grants	16.710		38,681

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
YEAR ENDED JUNE 30, 2003

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
Pass-through the Commonwealth of Puerto Rico – Department of Justice: Local Law and Enforcement Block Grants	16.592	Not Available	<u>9,115</u>
<b>Total U.S. Department of Justice</b>			<b><u>47,796</u></b>
<b>U.S. DEPARTMENT OF TRANSPORTATION:</b>			
Direct Program: Federal Transit – Formula Grants	20.507		<u>500,522</u>
<b>Total U. S. Department of Transportation</b>			<b><u>500,522</u></b>
<b>U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY:</b>			
Pass-through the Commonwealth of Puerto Rico – Emergency Management Agency: Emergency Management Performance Grants	83.552	Not Available	<u>18,338</u>
<b>Total U. S. Federal Emergency Management Agency</b>			<b><u>18,338</u></b>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>			
Pass-through the Commonwealth of Puerto Rico – Governors Office (Elderly Office): Special Program for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	93.044	Not Available	117,532

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
YEAR ENDED JUNE 30, 2003

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<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
Pass-through the Commonwealth of Puerto Rico - Administration for Children and Families: Child Care and Development Block Grant	93.575	Not Available	<u>177,076</u>
<b>Total U.S. Department of Health and Human Services</b>			<u>294,608</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 4,717,707</u>

The accompanying notes are an integral part of this schedule.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2003

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**A. BASIS OF PRESENTATION:**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the **Municipality of Cayey** and is presented on the modified accrual basis of accounting. The basis of accounting is the same used to prepare the fund financial statements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**B. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:**

Amounts reported in the accompanying Schedule are included in the Special Revenue and Capital Projects Funds in the Municipality's fund financial statements. The reconciliation between the expenditures in the funds financial statements and expenditures in the Schedule of Expenditures of Federal Awards is as follows:

<u>Description</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total</u>
Per Schedule of Expenditures of Federal Awards	\$ 2,850,706	\$ 1,867,001	\$ 4,717,707
Non federal programs expenditures	<u>4,292,053</u>	<u>4,361,354</u>	<u>8,653,407</u>
Total expenditures in the fund financial statements	<u>\$ 7,142,759</u>	<u>\$ 6,228,355</u>	<u>\$ 13,371,114</u>



**López-Vega, CPA, PSC**

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**To the Honorable Mayor  
and the Municipal Legislature  
Municipality of Cayey  
Cayey, Puerto Rico**

We have audited the basic financial statements of the **Municipality of Cayey** as of and for the year ended June 30, 2003, and have issued our report thereon dated December 20, 2003, which was unqualified. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the **Municipality of Cayey's** basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Municipality of Cayey's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting that, in our judgment, could adversely affect **Municipality of Cayey's** ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items **03-02** through **03-04**.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (CONTINUED)**

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose reportable conditions that are also to be material weaknesses. However, we believe the item **03-01** of the reportable conditions described in the accompanying Schedule of Findings and Questioned Costs is a material weakness. We also noted other matters involving internal control over financial reporting, which we have reported to management of the **Municipality of Cayey** in a separate letter dated December 20, 2003.

This report is intended for the information of the management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

  
LÓPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
December 20, 2003

Stamp No. 1942288 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.





**López-Vega, CPA, PSC**

Certified Public Accountants / Management Advisors

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- American Institute of Certified Public Accountants
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**INDEPENDENT AUDITORS' REPORT  
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB-CIRCULAR A-133**

**To the Honorable Mayor  
and the Municipal Legislature  
Municipality of Cayey  
Cayey, Puerto Rico**

Compliance

We have audited the compliance of the **Municipality of Cayey** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The **Municipality of Cayey's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the **Municipality of Cayey's** management. Our responsibility is to express an opinion on the **Municipality of Cayey's** compliance based on our audit.

Except as discussed in the following paragraph, We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **Municipality of Cayey's** compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the **Municipality of Cayey's** compliance with those requirements.

**INDEPENDENT AUDITORS' REPORT  
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB-CIRCULAR A-133  
(CONTINUED)**

As described in items **03-12, 03-13, 03-15, 03-16, 03-17 and 03-18** in the accompanying schedule of findings and questioned costs, the **Municipality of Cayey** did not comply with requirements regarding Financial Reporting, Eligibility of Individuals, Special Test-Housing Quality Standards Inspections and HQS Enforcement, Special Test-Utility Allowance Schedule, and Special Test-Selection from Section 8 Waiting List that are applicable to its Section 8 Housing Choice Voucher Program. Compliance with such requirements is necessary, in our opinion, for the **Municipality of Cayey** to comply with requirements applicable to that program.

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the **Municipality of Cayey's** compliance with the requirements of Section 8 Housing Choice Voucher Program described in the preceding paragraph, the **Municipality of Cayey** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items, **03-05 through 03-11**.

Internal Control Over Compliance

The management of the **Municipality of Cayey** is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the **Municipality of Cayey's** internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the **Municipality of Cayey's** ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items **03-05 through 03-16 and 03-18**.



**INDEPENDENT AUDITORS' REPORT  
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB-CIRCULAR A-  
133(CONTINUED)**

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees on the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weakness. However, of the reportable conditions described above, we consider items **03-09, 03-10, 03-12, 03-13 and 03-15 through 03-18** to be material weaknesses. We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Municipality of Cayey** in a separate letter dated February 17, 2004.

This report is intended for the information of the management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.



LÓPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
February 17, 2004

Stamp No. 1942289 of the Puerto Rico  
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was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2003**

**Section I – Summary of Auditors’ Results**

**Financial Statements**

Type of auditors’ report issued:	<b>Unqualified</b>	
Internal control over financial reporting:		
Material weakness identified?	Yes	No <b>X</b>
Reportable conditions identified not considered to be material weaknesses?	Yes <b>X</b>	None reported
Noncompliance material to financial statements noted?	Yes	No <b>X</b>

**Federal awards**

Internal Control over major programs:		
Material weakness identified?	Yes <b>X</b>	No
Reportable conditions identified not considered to be material weaknesses?	Yes <b>X</b>	None reported
Type of auditors’ report issued on compliance for major programs:	<b>Unqualified, except Qualified for Section 8 Housing Choice Voucher (CFDA No. 14.871)</b>	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes <b>X</b>	No

**Identification of major programs:**

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grants - Entitlement Grants
14.871	Section 8 Housing Choice Voucher Program

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as low-risk auditee?	Yes                  No <b>X</b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II - Financial Statements Findings

<b>Finding Reference</b>	<b>03-01</b>
<b>Requirement</b>	<b>Fixed\Capital Assets and Expenditures - Subsidiary Ledger</b>
<b>Statement of Condition</b>	During our examination of Municipality's property records and reports, we noted the following deficiencies: balance in the Property Subsidiary Ledger does not reconcile with the ending balances reported in the audited financial statements; there is no adequate internal control procedures to assure the proper valuation and timeliness of recognition of real and personal property in the Property Subsidiary Ledger; and Construction in Progress account were not maintained in the General Ledger and Property Subsidiary Ledger
<b>Criteria</b>	Article 9.002 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain updated property accounting records. Also, the Federal regulations have established that a financial management system shall provide for effective control and accountability for all funds, fixed assets, and other assets.
<b>Cause of Condition</b>	There is no internal control procedures implemented to assure the completeness of the property records and reports.
<b>Effect of Condition</b>	The Municipality did not maintain an adequate control of the accountability regarding equipment and real property transactions.
<b>Recommendation</b>	We recommend that the Municipality should implement procedures in order to assure the proper valuation and timeliness of recognition of real and personal property as well as Construction in Progress in the Property Subsidiary Ledger in a manner that it provides updated and complete financial information
<b>Management Response and Corrective Action Plan</b>	Actually the Municipality's Finance Director is evaluating this situation to take corrective actions and implement procedures in order to assure the proper valuation and timeless of recognition in the Property Subsidiary Ledger in a manner that it provides updated and complete financial information.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section II – Financial Statements Findings

<b>Finding Reference</b>	03-02
<b>Requirement</b>	Financial Reporting – Accounting Records
<b>Statement of Condition</b>	During our examination of the Municipality's accounting system, we noted that it does not summarize the transactions in a formal General Ledger in order to properly record and account for the transactions of all of its Governmental Funds (Local, State and Federal funds) and Account Groups.
<b>Criteria</b>	Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system.
<b>Cause of Condition</b>	The Municipality did not establish effective internal control over the transactions recorded on its accounting records. Also, the accounting data is not summarized in the form of a double-entry general ledger record.
<b>Effect of Condition</b>	The Municipality accounting system did not provide updated and complete financial information that present the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions.
<b>Recommendation</b>	We recommend that the Municipality should implement internal control and procedures in order to maintain an accounting system that contain information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.
<b>Management Response and Corrective Action Plan</b>	The Municipality will implement internal control and procedures in order to maintain an accounting system that contain information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

**Section II - Financial Statements Findings**

<b>Finding Reference</b>	<b>03-03</b>
<b>Requirement</b>	<b>Payroll and Related Liabilities - Payroll Preparation and Timekeeping</b>
<b>Statement of Condition</b>	<p>We performed a payroll test and examined a sample of 60 personnel files. The following summarize the exceptions noted:</p> <ul style="list-style-type: none"><li>a. In one (1) employee file the salary stated in the Notifying of Nomination Form did not agree with the salary included in the payroll for the period ended June 30, 2003.</li><li>b. In seventeen (17) cases the I-9 Form was not duly completed.</li><li>c. In eight (8) employees we noted differences between the sick and regular vacations as per the time assistance card and the sick and regular vacations discounted in the accumulative vacation card.</li></ul>
<b>Criteria</b>	<p>The Revised Regulations on Basic Standards for the Municipalities of Puerto Rico, Chapter IV, Section 18 (1) establish that the Municipality will prepare the payroll based on the employee files.</p>
<b>Cause of Condition</b>	<p>There is no internal control procedure implemented to assure the proper preparation and payment of payroll and the correctness of compensated absences balances.</p>
<b>Effect of Condition</b>	<p>The Municipality did not maintain an adequate control over the personnel files and the compensated absences records.</p>
<b>Recommendation</b>	<p>We recommend the Municipality to improve its procedure to assure that the Human Resource Department pay the correct salaries as stated on the employees files. We also recommend that the Municipality should review all payrolls prepared and the Human Resources Department should verify the accuracy of the compensated absences and assistance records.</p>
<b>Management Response and Corrective Action Plan</b>	<p>The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

**Section II - Financial Statements Findings**

**Finding Reference**            03-04

**Requirement**                **Expenditures for Goods and Services and Account Payables -  
Purchasing and Receiving**

**Statement of Condition**    During our examination of the Municipality's procedures related to the purchasing and receiving process, we examined sixty (60) disbursement vouchers and we noted the following situations:

- a. Five (5) disbursement vouchers did not have an approved and pre-numbered requisition.
- b. In two (2) disbursement vouchers the invoice was not signed by the supplier.
- c. One (1) requisition form was not approved.
- d. Four (4) cancelled checks were not available for our examination.

**Criteria**

The Revised Regulations on Standards for the Municipalities of Puerto Rico establish in Chapter four (IV) that the Finance Director will be responsible to account and realize disbursements through documents duly prepared and certified, including sufficient evidential matter to support the transactions. Also, the Chapter Eight (VIII) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico establishes the procedures related to the formal bids or quotations for the purchase of goods or services.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

**Section II – Financial Statements Findings**

<b>Finding Reference</b>	<b>03-04 (Continued)</b>
<b>Cause of Condition</b>	The Municipality did not establish effective internal control to assure that all transactions include all the required documentation.
<b>Effect of Condition</b>	The Municipality is not in compliance with Chapter Four (IV) and Eight (VIII) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico.
<b>Recommendation</b>	We recommend that the Municipality should improve its internal control and procedures in order to assure that all disbursement vouchers contain all supporting documents before making the payment. Also, we recommend that the Municipality should improve its procedures to assure that at least three quotations should be requested for all purchase off goods or services that do not exceed \$10,000 and construction contracts that do not exceed \$40,000 or realize formal bids for purchases that exceed that limits.
<b>Questioned Costs</b>	None
<b>Management Response and Corrective Action Plan</b>	The Municipality's Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	03-05
<b>Program</b>	Community Development Block Grant – Entitlement Grant (CFDA. No. 14.218); U.S. Department of Housing and Urban Development
<b>Requirement</b>	<b>Cash Management</b>
<b>Statement of Condition</b>	We realized the Cash Management Tests and after our procedures were performed, we found the following exceptions:  a. The programs maintained a monthly average cash balance of \$38,788 in books
<b>Criteria</b>	Code of Federal Regulations 24, Section 85.20 (b) (7) states that the Municipality must maintain procedures for minimizing the time elapsed between the transfer of funds from the U.S. Treasury and disbursement by grantees and sub grantees whenever advance payment procedures are used.
<b>Cause of Condition</b>	The Municipality did not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs.
<b>Effect of Condition</b>	The Municipality requested funds in excess of immediate needs and for that reason the Municipality did not comply with the Code of Federal Regulations 24, Section 85.20 (b) (7).
<b>Recommendation</b>	We recommend the management should strengthen it's procedures to minimize the time elapsed between the transfer of funds from the federal entity and the disbursements made by the Municipality.
<b>Questioned Costs</b>	None
<b>Management Response and Corrective Action Plan</b>	Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

<b>Finding Reference</b>	03-06
<b>Program</b>	Community Development Block Grant - Entitlement Grant (CFDA. No. 14.218); U.S. Department of Housing and Urban Development
<b>Requirement</b>	Davis-Bacon Act
<b>Statement of Condition</b>	<p>During our Davis-Bacon Act test for the project 11 Program Year 1999, we noted the following situations:</p> <ul style="list-style-type: none"><li>a. There is no evidence that the Municipality's employee responsible of applying monitoring procedures review the weekly payrolls to assure that the contractor comply with prevailing wages rates.</li><li>b. There is no evidence of submission for the weekly payrolls of January to April 2003.</li><li>c. There is only one on site visit to one employee during the fiscal year 2002-03.</li></ul>
<b>Criteria</b>	Davis-Bacon Act, as amended (40 USC 276A-276A-5), Subpart K, 24 CFR 570.603.
<b>Cause of Condition</b>	Municipality did not apply all monitoring system procedures developed to test applicable contractors with respect to payment of prevailing wages.
<b>Effect of Condition</b>	Municipality is not in compliance with Davis Bacon Act, as amended (40 USC 276A-276A-5) Subpart K, 24, CFR 570.603.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

**Section III - Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**            **03-06 (Continued)**

**Recommendation**            We recommend management to follow monitoring system procedures developed, including obtaining contractor's and subcontractor's weekly payrolls to be reviewed on a weekly basis by the responsible Municipal Employee to establish the degree of compliance and the nature and extent of violations, if any, and then, communicate contractors promptly about any failure in the payroll process.

**Questioned Costs**            None

**Management Response and Corrective Action Plan**    Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>03-07</b>
<b>Program</b>	<b>Community Development Block Grant – Entitlement Grant (CFDA. No. 14.218); U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Special Test- Housing Rehabilitation</b>
<b>Statement of Condition</b>	<p>During our audit of twenty-five (25) housing rehabilitation files, we noted the following situations:</p> <ul style="list-style-type: none"><li>a. In seven (7) cases the rehabilitation file did not present the eligibility application.</li><li>b. In six (6) cases the income and employment status of participants have not been properly verified.</li><li>c. In four (4) cases the pre-rehabilitation inspection did not include the deficiencies to be corrected.</li><li>d. In ten (10) cases, we noted that the grantee did not perform the final inspection of the rehabilitation work during the period established in the housing rehabilitation contract. The inspections of the rehabilitation work were performed between four and eleven months after the receipt of the materials.</li><li>e. In seven (7) cases the rehabilitation works still incomplete after the end of the term stipulated in the contract.</li></ul>
<b>Criteria</b>	According to 24 CFR, Section 570.506 states that when CDBG-Entitlement Grants funds are used for rehabilitation, the grantee must assure that the work is properly completed and appropriate documentation is maintained.
<b>Cause of Condition</b>	The program has not established adequate internal control procedures to assure that rehabilitations are duly completed as required by regulations and appropriate documentation is maintained.
<b>Effect of Condition</b>	Municipality is not in compliance with 24 CFR, Section 570.506.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

**Section III - Major Federal Award Program Findings and Questioned Costs**

**Finding Reference** 03-07 (Continued)

**Recommendation** We recommend the Program to establish the following procedures:

- a. Ascertain that the housing unit deficiencies be corrected and incorporated into the rehabilitation contract
- b. Realize pre-rehabilitation inspection describing the housing unit deficiencies to be corrected.
- c. Assign a staff to inspect the rehabilitation work upon completion to assure that is carried out in accordance with the time established in the contract.

**Questioned Costs** None

**Management Response and Corrective Action Plan** Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

**Section III - Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>03-08</b>
<b>Program</b>	<b>Community Development Block Grant - Entitlement Grant (CFDA. No. 14.218); U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Reporting</b>
<b>Statement of Condition</b>	<p>During our audit of the Federal Cash Transactions Report (SF-272), we found the following exceptions:</p> <ul style="list-style-type: none"><li>a. The cash on hand at the end of the reporting period (line 11j) for the periods ended 9/30/02 and 3/31/03, isn't the beginning balance in the following quarter.</li><li>b. In the period ended 3/31/03 the amount of credit withdrawals (line 11a) did not reconcile with the accounting records.</li></ul>
<b>Criteria</b>	OMB Common Rules, Subpart C, Section 85.20 (b) (1), states that the grantee must maintain internal control procedures that permits proper tracing of funds to accounting records. Also, it requires accurate, current and complete disclosure of financial results.
<b>Cause of Condition</b>	The program accountant reported the credit withdrawals as cash disbursement during the period covered in the report.
<b>Effect of Condition</b>	The Municipality did not comply with the 24 CFR, Section 85.20 (b) (1) and OMB Circular A-87.
<b>Recommendation</b>	We recommend that the Municipality should implement procedures in order to assure that the report only present the total credit withdrawal during the covered period.
<b>Questioned Costs</b>	None
<b>Management Response and Corrective Action Plan</b>	Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

**Section III - Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference Program</b>	<b>03-09 Community Development Block Grant - Entitlement Grant (CFDA. No. 14.218); U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Equipment and Real Property Management</b>
<b>Statement of Condition</b>	We performed the Equipment and Real Property Management Test and we found the following exceptions:  a. We noted that there were no adequate and accurate records to account for additions or dispositions of property and equipment during the fiscal year 2002-2003.  b. The Property Subsidiary Ledger maintained by the program wasn't updated since the year 2000.
<b>Criteria</b>	Subpart C, 24 CFR 85.32 (d) (1) requires that equipment records shall be accurately maintained and include a description of the property, a serial number or other identification number, the source of property, who holds the title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
<b>Criteria</b>	Subpart C, 24 CFR 85.32 (d) (2), (3) establishes that a physical inventory of the property must be taken and the results reconciled with the property records at least once every two years and a control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property.
<b>Cause of Condition</b>	There are no adequate internal controls to maintain accurate property records
<b>Effect of Condition</b>	The Municipality is not in compliance with Subpart C, 24 CFR 85.32 (d) (1), (2) and (3).

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

**Section III - Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**

**03-09 (Continued)**

**Recommendation**

We recommend management to perform a physical inventory in order to actualize the property subsidiary. In addition, we recommended strengthening it's internal control procedures in order to assure that the program maintains proper records and adequately safeguards for the equipment to comply with program requirements and regulations.

**Questioned Costs**

None

**Management Response  
and Corrective Action  
Plan**

Actually, the Federal Programs Office is updating the inventory to correct the deficiencies as soon as possible.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference Program</b>	<b>03-10 Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement Statement of Condition</b>	<b>Cash Management</b> We realized Cash Management Test and after our procedures, we found the following situation: <ul style="list-style-type: none"><li>a. At June 30, 2003, the cash balance in book was \$347,028; \$105,340 of these funds was from HUD overpayment during the fiscal year 2002-03 as determined in the year-end settlement; \$65,632 was from operating reserve at June 30, 2003, as determined in the year-end settlement; and the remaining \$176,056 was not identified by us with respects to its origin.</li><li>b. We noted that during the twelve (12) month of the fiscal year 2002-2003, the PHA maintains a leasing rate under 95%, and maintains an average leasing rate of 86% for the fiscal year. The PHA did not submit to HUD a revised requisition (Form 52663) to reduce the monthly advance.</li></ul>
<b>Criteria</b>	OMB Common Rules, Subpart C Section 85.20 (b) (7) requires a cash management system in order to minimize the elapsed time between the transfer of funds from the U.S. Treasury and disbursement by the grantee.
<b>Cause of Condition</b>	The Federal Program Department did not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs.
<b>Effect of Condition</b>	The Municipality did not comply with OMB Common Rules Subpart C, Section 85.20 (b) (7).
<b>Recommendation</b>	We recommend that management should strengthen it's procedures to minimize the time elapsed between the transfer of funds from the federal entity and the disbursements made by the Municipality. The management must submit a revised requisition (Form 52663) to HUD when the leasing rate does not exceeds the 95% in order to avoid an excessive adjusted cash balance in books.
<b>Questioned Costs</b>	None
<b>Management Response and Corrective Action Plan</b>	The Municipality concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 03-11

Program Community Development Block Grant - Entitlement Grant (CFDA. No. 14.218); U.S. Department of Housing and Urban Development

Requirement Procurement and Suspension and Debarment

Statement of Condition During our contract provision test, we noted the following situations:

- a. Three (3) contracts did not include a provision for granting accesses to GAO or other federally agency, to books and other documents.
- b. One (1) contract did not include a provision for compliance with Davis Bacon Act.
- c. Two (2) contracts did not include a provision for compliance with Energy Policy and Conservation Act. .
- d. One (1) contract did not include a provision for compliance with the Copeland "Anti-Kickback".
- e. Two (2) contracts did not include a provision for retention of all required records for three years.

Criteria Code of Federal Regulations 24, Part 570.489 (g) requires that all purchase orders and contracts include any clauses required by Federal Statutes, executive orders and implementing regulations.

Cause of Condition The Municipality did not maintain appropriate monitoring procedures to detect the exclusion of certain contract clauses.

Effect of Condition The Municipality is not in compliance with Code of Federal Regulations 24, Part 570.489 (g).

Recommendation We recommend management to update contract model according with the federal requirements.

Questioned Costs None

Management Response and Corrective Action Plan The Municipality concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

**Section III - Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**                    03-12

**Program**                                Section 8 Housing Choice Vouchers Program (CFDA 14.871)  
U.S. Department of Housing and Urban Development

**Requirement**                         Reporting - Financial Reporting

**Statement of Condition**            During our audit of the Financial Reports, we found the following exceptions:

We were unable to determine if the report of Voucher for Payment of Annual Contributions and Operating Statement was made in accordance with the required accounting basis since the amounts in the report don't trace to the accounting records.

**Criteria**                                OMB Common Rules, Subpart C, Section 85.20 (b) (1), states that the grantee must maintain internal control procedures that permits proper tracing of funds to accounting records. Also, it requires accurate, current and complete disclosure of financial results.

**Cause of Condition**                The Municipality did not maintain an adequate internal control to assure that the Financial Reports are accurately prepared in order to assure that the information reported is in accordance with the accounting records.

**Effect of Condition**                The Municipality did not comply with the OMB Common Rules, Subpart C Section 85.20 (b) (1).

**Recommendation**                 We recommend that the Municipality should implement procedures in order to assure that all financial and programmatic reports are prepared in accordance with the required accounting basis.

**Questioned Costs**                    None

**Management Response and Corrective Action Plan**    The Municipality concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 03-13

Program Section 8 Housing Choice Vouchers Program (CFDA 14.871)  
U.S. Department of Housing and Urban Development

Requirement Eligibility of Individuals

Statement of Condition We performed an eligibility test and examined a sample of twenty-five (25) participant files. The following will summarize the exceptions found:

- a. In one (1) case there is no evidence of the income reported in the Family Report.
- b. In sixteen (16) cases examined there was no evidence the PHA staff provided to the Head of Household a Release Form to obtain information from third parties.
- c. In eight (8) cases there was no Privacy Act Notice form signed by the head of household.
- d. In four (4) cases some members of the family who are at least 18 years old did not sign the Privacy Act Notice and/or other release forms included in the participant's file.
- e. In one (1) case the related documentation to support income were issued more than sixty days prior to the Voucher's date.
- f. In three (3) cases the Municipality did not considered participant revenues amounting to approximately to \$9,340. As result the program paid incorrectly the housing assistance payments.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 03- 13 (Continued)

Criteria	Code of Federal Regulations, 24 CFR, Sections 5.212, 5.230, and 5.601 through 5.617 states as a condition of admission or continued occupancy, it requires the tenant and other family members to provide necessary information, documentation and releases for the PHA to verify income eligibility. As part of this regulation the participant and other members of the family who are at least 18 years old must sign an application form, one or more releases forms, a Federal Prescribed General Release Form for employment information and a Privacy Act Notice.
Cause of Condition	The Municipality did not have adequate internal control procedures to assure that the participant's files include all required documentation and releases required by federal agencies.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations, 24 CFR, Sections 5.212, 5.230, and 5.601 through 5.617.
Recommendation	We recommend the Program to establish the following procedures:  a. Implement internal control procedures to assure that the participant's files include complete and updated documentation as required by federal agencies.
Questioned Costs	None
Management Response and Corrective Action Plan	The Municipality concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

**Section III - Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>03-14</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Special Test - Reasonable Rent</b>
<b>Statement of Condition</b>	<p>During our verification of twenty-five (25) participant files, we noted the following:</p> <ul style="list-style-type: none"><li>a. In one (1) newly leased unit the document of reasonable rent determination was incomplete.</li><li>b. In four (4) newly leased units the determination of reasonable rent includes only one comparable unit.</li><li>c. In two (2) newly leased units there is no evidence of determination of reasonable rent.</li><li>d. In three (3) continued occupancy units there is no evidence of determination of reasonable rent when the owners increase the rent.</li></ul>
<b>Criteria</b>	<p>Code of Federal Regulations, 24 CFR, Sections 982.54 (d)(15), 982.158 (f)(7) and 982.507 states that the PHA must determine reasonable rent at the time of the initial leasing and must maintain records to document the basis for the determination that the rent paid to the owner is reasonable. In addition, the rent paid to the owner may not exceed the reasonable rent as most recently determined or re-determined by PHA.</p>
<b>Cause of Condition</b>	<p>The Federal Program Department did not maintain adequate controls to document the basis for the determination of the reasonable rent paid to the owner.</p>
<b>Effect of Condition</b>	<p>The Municipality is not in compliance with Code of Federal Regulations, 24 CFR, Sections 982.54 (d)(15), 982.158 (f)(7) and 982.507.</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

**Section III - Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**                      **03-14 (Continued)**

**Recommendation**                      We recommend that the Federal Program Department must implement controls to assure appropriate documentation of the determination of reasonable rent is maintained in participant files.

**Questioned Costs**                      None

**Management Response and  
Corrective Action Plan**              The Municipality concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2003

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	03-15
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
Requirement	Special Test - Housing Quality Standards Inspections and Housing and Quality Standards Enforcement
Statement of Condition	<p>During our examination of twenty-five (25) participants' files, we noted the following situations:</p> <ul style="list-style-type: none"><li>a. In two (2) cases there is no evidence that the PHA require to the owner the correction of the deficiencies noted in the inspections.</li><li>b. In one (1) case the correction period has ended and the participant file did not contain a unit inspection report or evidence documenting that any PHA required repairs were complete. Also, we did not find documents in the files show that the PHA property stopped HAP's or terminated the HAP contract.</li><li>c. We noted that during the fiscal year 2002-2003 the Municipality did not performed the minimum Quality Control re-inspections required. For the Quality Control re-inspections realized, the Municipality did not complete the inspections Form HUD 52580.</li></ul>
Criteria	Code of Federal Regulations 24, Sections 982.158 (d), 982.404 and 982.405 established that for units under contract that fail to meet HQS, the PHA must require the owner to correct any cited life threatening HQS deficiencies within 24 hours after the inspections and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extensions. If the owner does not correct the cited HQS deficiencies within the specified correction period the PHA must stop the Housing Assistance Payment or must terminate the HAP contract. Also, the PHA must conduct supervisory quality control HQS inspections.

**COMMONWEALTH OF PUERTO RICO  
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

**Section III - Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**                      **03-15 (Continued)**

**Cause of Condition**                      The Management does not have adequate internal control procedures to assure that the leased units were subject to annual inspections, supervisory quality control inspections and documented them in a unit inspection report.

**Effect of Condition**                      The Municipality is not in compliance with Code of Federal Regulations, 24 CFR, Subpart I, Section 982.158 (d), 982.404 and 982.405 (b).

**Recommendation**                      We recommend management to implement internal control procedures to assure that inspections are performed and properly documented in Form HUD 52580.

**Questioned Costs**                      None

**Management Response and Corrective Action Plan**                      The Municipality concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

**Section III - Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>03-16</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Special Test - Utility Allowance Schedule</b>
<b>Statement of Condition</b>	The Municipality did not maintain an up-to-date utility schedule for the audit period ending June 30, 2003. The last time the PHA reviewed its utility allowance schedule was in 1999.
<b>Criteria</b>	Code of Federal Regulations 24, Section 982.517 states that the Municipality must maintain an up-to-date utility allowance schedule. The Municipality must review the utility rate data for each utility category each year and must adjust its allowance schedule if there has been a rate change of ten percent (10%) or more for a utility category or fuel type since the last time utility allowance was reviewed.
<b>Cause of Condition</b>	The Municipality did not document the evidence necessary to verify that the utility allowance study has been done properly to determine if there has been a change of 10 % or more in utility rate.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulations 24, Section 982.517.
<b>Recommendation</b>	The Municipality should document properly the evidence of its utility allowance study to determine if there has been a change of 10% or more in the utility rate each year as established in the federal regulations.
<b>Questioned Costs</b>	None
<b>Management Response and Corrective Action Plan</b>	The Municipality concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

**Section III - Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	03-17
<b>Program</b>	Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development
<b>Requirement</b>	Special Test - Selection from the Section 8 Waiting List
<b>Statement of Condition</b>	During our waiting list test we found the following exceptions: <ul style="list-style-type: none"><li>a. The PHA does not select the families from the top of the waiting list according with the PHA applicant selection policies. Also, we noted that six (6) participants admitted for first time during the fiscal year 2002-03, did not appear in the Waiting List.</li></ul>
<b>Criteria</b>	Code of Federal Regulations 24, Sections 982.54 (d) and 982.201 through 982.207 states the waiting list procedures and that the selection from the waiting list generally occurs when the PHA notifies a family whose names reaches the top of the waiting list to come in to verify eligibility for admission.
<b>Cause of Condition</b>	The Municipality did not maintain adequate internal control procedures to assure that the waiting list include all information required by Federal Regulation and to assure that the participants were selected from the top of the waiting list.
<b>Effect of Condition</b>	The Municipality is not in compliance with 24 CFR sections 982.54 (d) and 982.201 through 982.207.
<b>Recommendation</b>	We recommend the Municipality to follow admission procedures established in the administrative plan. Also, we recommend the management to establish proper internal control so that the waiting list includes all information as required by Federal Regulations. This control must permit proper tracing of participants selected in the waiting list in order to assure the selection from the top of the waiting list.
<b>Questioned Costs</b>	None
<b>Management Response and Corrective Action Plan</b>	The Municipality concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

**Section III - Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>03-18</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Reporting - Special Reporting</b>
<b>Statement of Condition</b>	We noted that the PHA did not maintain supporting documentation to assure that the Form HUD 50058, Family Report was transmit electronically to HUD as required by Federal Regulation.
<b>Criteria</b>	Code of Federal Regulations 24, Part 908 requires to the PHA to submit HUD-50058 Form Family Report electronically to HUD each time the PHA completes an admission, annual reexamination, interim reexamination, portability move-in or other change of unit for a family. The PHA must also submit the Family Report when a family ends participation in the program or moves out of the PHA's jurisdiction under portability.
<b>Cause of Condition</b>	The person in charge to submit the form to HUD did not maintain supporting evidence that demonstrate us that the form HUD 50058, Family Report (OMB No. 2577-0083) was transmit electronically to HUD as required by Federal Regulation.
<b>Effect of Condition</b>	The Municipality is not in compliance with Code of Federal Regulations 24, Part 908.
<b>Recommendation</b>	We recommend to the Municipality that maintain supporting documentation to assure that the form HUD 50058, Family Report (OMB No. 2577-0083) was transmit electronically to HUD as required by Federal Regulation.
<b>Questioned Costs</b>	None
<b>Management Response and Corrective Action Plan</b>	The Municipality concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**YEAR ENDED JUNE 30, 2003**

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
02-06	14.218	<p><u>The Municipality should strengthen it's procedures to minimize the time elapsed between the transfer of funds from the federal entity and the disbursements made by the Municipality.</u></p> <p>No corrective action has been taken. See current year finding number 03-05.</p>
02-07	14.218	<p><u>The Municipality should establish the following procedures: As certain that the housing unit deficiencies be corrected and incorporated into the rehabilitation contract; Realize pre-rehabilitation inspection describing the housing unit deficiencies to be corrected; Assign a staff to inspect the rehabilitation work upon completion to assure that is carried out in accordance with the time None established in the contract.</u></p> <p>No corrective action has been taken. See current year finding number 03-07.</p>
02-08	14.218	<p><u>The Municipality should implement procedures in order to assure that the report only present the total credit withdrawal during the covered period.</u></p> <p>No corrective action has been taken. See current year finding number 03-08.</p>
02-09	14.218	<p><u>The Municipality should perform a physical inventory in order to actualize the property subsidiary. In addition, we recommended strengthening it's internal control procedures in order to assure that the program maintains proper records and adequately safeguards for the equipment to comply with program requirements and regulations.</u></p> <p>Partial corrective action has been taken. The Municipality contracted a CPA firm that coordinated and supported the municipal employees in updating the property records.</p>
02-10	20.507	<p><u>The Municipality should strengthen it's procedures to minimize the time elapsed between the transfer of funds from the federal entity and the disbursements made by the Municipality.</u></p> <p>No corrective action has been taken.</p>

**COMMONWEALTH OF PUERTO RICO  
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**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
02-11	20.507	<p><u>The Municipality should improve its record retention system in order to assure that the documents are available for audit procedures.</u></p> <p>No corrective action has been taken.</p>
02-12	14.871	<p><u>The Municipality should strengthen it's procedures to minimize the time elapsed between the transfer of funds from the federal entity and the disbursements made by the Municipality. The management must submit a revised requisition (Form 52663) to HUD when the leasing rate does not exceeds the 95% in order to avoid an excessive adjusted cash balance in books.</u></p> <p>No corrective action has been taken. See current year finding number 03-10.</p>
02-13	14.871	<p><u>The Municipality should implement procedures in order to assure that all financial and programmatic reports are prepared in accordance with the required accounting basis.</u></p> <p>No corrective action has been taken. See current year finding number 03-12.</p>
02-14	14.871	<p><u>The Municipality should establish the following procedures: Implement internal control procedures to assure that the participant's files include complete and updated documentation as required by federal agencies.</u></p> <p>No corrective action has been taken. See current year finding number 03-13.</p>
02-15	14.871	<p><u>The Municipality should implement controls to assure appropriate documentation of the determination of reasonable rent is maintained in participants file.</u></p> <p>No corrective action has been taken. See current year finding number 03-14.</p>
02-16	14.871	<p><u>The Municipality should implement internal control procedures to assure that inspections are performed and properly documented in Form HUD 52580.</u></p> <p>No corrective action has been taken. See current year finding number 03-15.</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
02-17	14.871	<p><u>The Municipality should implement internal control procedures to assure that in all cases they document their requirement of correction of any cited HQS deficiencies within 30 calendar days of the inspection and that they perform and document the re-inspections to assure that PHA-required repairs were completed.</u></p> <p>No corrective action has been taken. See current year finding number 03-15.</p>
02-18	14.871	<p><u>The Municipality should document properly the evidence of its utility allowance study to determine if there has been a change of 10% or more in the utility rate each year as established in the federal regulations.</u></p> <p>No corrective action has been taken. See current year finding number 03-16.</p>
02-19	14.871	<p><u>The Municipality should follow admission procedures established in the administrative plan. Also, we recommend the management to establish proper internal control so that the waiting list includes all information as required by Federal Regulations. This control must permit proper tracing of participants selected in the waiting list in order to assure the selection from the top of the waiting list.</u></p> <p>No corrective action has been taken. See current year finding number 03-17.</p>
02-20	14.871	<p>The Municipality should adequately document and file any evidence concerning reports documents prepared to comply with the Federal Regulations.</p> <p>Corrective action plan was taken.</p>
02-21	14.871	<p><u>The Municipality should establish internal control procedures to assure that any transmission problem with the HUD system is corrected in a timely manner.</u></p> <p>No corrective action has been taken. See current year finding number 03-18.</p>
02-22	14.871	<p><u>The Municipality should establish monitoring procedures to assure that Housing Assistance Payments are duly computed as required by the Federal Regulations.</u></p> <p>Corrective action plan was taken.</p>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CAYEY**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)**

**YEAR ENDED JUNE 30, 2003**

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
01-04	14.218 14.855 14.857	<u>The Municipality did not maintain adequate cash management procedures.</u>  Situation still prevails. See current year findings number 03-15 and 03-10.
01-06	14.218	<u>No appropriate documentation on housing rehabilitation files</u>  Situation still prevails. See current year finding number 03-07.
01-07	14.218	<u>Failure in the preparation of the Financial Report</u>  Situation still prevails. See current year finding number 03-08.
01-08	14.855	<u>No appropriate documentation on tenant files</u>  Situation still prevails. See current year finding number 03-13.
01-09	14.855 14.857	<u>The determination of reasonable rent was not documented in the participant file.</u>  Situation still prevails. See current year finding number 03-14.
01-10	14.855 14.857	<u>The evidence of quality control inspections was not documented in the participant file.</u>  Situation still prevails. See current year finding number 03-15.
01-11	14.855 14.857	<u>Failure in document the PHA requires correction of any cited HQS deficiencies within 30 calendar days of the inspection.</u>  Situation still prevails. See current year finding number 03-15.